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TAGS: [PGOV](#) [ECON](#) [PREL](#) [SNAR](#) [PA](#)
SUBJECT: CIRCLING SHARKS IN LANDLOCKED PARAGUAY

REF: A. ASUNCION 261
[1](#)B. ASUNCION 284

Classified By: DCM Michael J. Fitzpatrick; reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: As President Lugo approaches nine months in office, he faces increasing political and social instability. Rumors persist that former coup-plotting General Lino Oviedo, ex-President Nicanor Duarte Frutos, and/or Vice President Frederico Franco continue to look for ways to cut Lugo's term short. Lugo's relations with his Vice President are tense at best, and the political sharks surrounding Lugo continue to circle in search of increased space and power. Lugo has been bogged down by several paternity claims, and allegedly shuffled his cabinet in order to distract the public from his personal scandal. Unknown actors have attempted to take advantage of the growing political instability this week by placing several "bombs" (both real and fake) in downtown Asuncion. Lugo insiders report that the president is frustrated with his inability to affect change, and we note backlash against some U.S.-funded ministries or agencies that are working to root out corruption. While one Lugo insider insists that Lugo's morale is solid, we believe he is under great pressure, and worry that the end game of some -- getting him to resign or face impeachment -- may become an increasing possibility.
END SUMMARY.

[1](#)2. (C) As President Lugo approaches nine months in office on August 15, he faces increasing political and social instability. Lugo continues to climb the learning curve, compensating for his own political isolation and inexperience by reaching out with increasing frequency to Congress and other actors. However, the challenges continue to loom large: a bloated state full of corrupt Colorado Party supporters, many of whom do not even pretend to show up for work; a weak and virtually dysfunctional judicial system; deeply entrenched, shadowy interests which control the media, state-owned enterprises, and all government ministries, as well as the underground economy; and the public's extremely high expectations for immediate results.

[1](#)3. (C) Rumors persist that former coup-plotting General Lino Oviedo, ex-President Nicanor Duarte Frutos, and/or Vice President Frederico Franco continue to look for ways to cut Lugo's term short. Emboffs are hearing increasing reports that General Oviedo continues to jockey for a "democratic" means into power. Most theories are based on impeachment charges against Lugo, which would require a 2/3 vote in the Lower House to charge and a 2/3 vote in the Senate to convict. While Oviedo's UNACE party doesn't have the numbers to initiate proceedings (or a plausible ground for impeachment-- yet), most believe that Duarte's faction of the Colorado Party would lend its support (in exchange for letting Duarte back into the Senate), and that the remaining

deputies/senators could be "purchased" with political leverage applied by Oviedo. We believe that given Oviedo's history and personality (and advancing age), he has not resigned himself to waiting out Lugo's term, and that he is in fact likely engaged in some kind of conspiracy against the president. In short, Oviedo is not going to go away.

¶4. (C) Lugo's relations with his Vice President are tense at best, and the political sharks surrounding Lugo continue to circle in search of increased space and power. Some political actors believe that Franco has made a deal with Oviedo to expedite Lugo's impeachment so Franco -- known for being a very political animal himself -- can assume the presidency, call vice presidential elections, and help Oviedo get elected as vice president. Certainly, the divide between Lugo and Franco is growing. However, Franco told the Ambassador April 28 that he is not engaged in any plans to unseat Lugo and that he will patiently remain in his position and support Paraguay's democratic institutions. Franco lamented that he learns of Paraguayan government business by reading the newspaper, and is completely isolated from decision making. Meanwhile, the pushing and pulling within Lugo's inner circle has escalated. Most assume that Chief of Staff Miguel Lopez Perito is calling the shots in Lugo's government; others believe there is another hidden actor who is making most policy decisions. Interior Minister Rafael Filizzola appears to be a constant voice of moderation; Liberal Party Senator (and recently resigned Justice/Labor Minister) Blas Llano may be another. We have also heard reports that the Venezuelans are assisting Lugo with his communications strategy, but their presence is virtually invisible.

¶5. (C) Lugo has been bogged down by several paternity claims, and allegedly shuffled his cabinet in order to distract the public from his personal scandals. Constant press attention to Lugo's sexual activities as a priest and bishop are taking a personal toll on the president. We know that it pains him to be further distanced from the Catholic Church. Many believe his late April cabinet changes in the Ministries of Industry/Commerce, Agriculture, Education, and Justice/Labor, followed by the Foreign Ministry, were meant to bring the public's attention back to the business at hand.

Of the three women (a fourth in Spain was reported to exist but denied having a child with Lugo) who came forward to allege Lugo fathered one of their children, Lugo accepted responsibility for only the first. For the other two, he has said he will submit to the Paraguayan judicial system and provide a DNA sample. Lugo knows that his opponents sought out these women (or their lawyers) and paid them to come forward. Then, as the paternity cases subsided, the press attempted to link Lugo to the Cecilia Cubas kidnappers, but the allegations fell apart when the sole witness admitted to being paid off by ex-President Duarte to lie. Lugo's response to the allegations against him has been strong; in several public discourses in the past week he has almost shaken in anger, in stark comparison to his characteristic calm and measured speech.

¶6. (C) Unknown actors have attempted to take advantage of the growing political instability by placing several "bombs" (both real and fake) in downtown Asuncion, obviously hoping to tip the balance against Lugo by generating insecurity. However, the Lugo administration's response has been swift and decisive. Lugo said late May 5 that his government would disarm any attempts to destabilize it just as it disarmed the purported bombs (reftels). The Embassy's technical assistance to the Paraguayan government following several bomb incidents was highlighted positively in the press, and Lugo has personally and repeatedly expressed gratitude for all U.S. security assistance. The swirling rumors about responsibility for the bombs -- a real one discovered at the Judicial Palace on April 29 and another discovered May 6 at a gas station -- must be viewed like everything else through the lens of Paraguayan conspiracy theory, in which truth matters less than political perception (with the bottom line being that we'll likely never know). The next step, according to Llano, is a Roofless Movement campesino march scheduled for May 12, which Duarte Frutos and Colorado

Senator Galaverna have allegedly organized. Llano said their plan is to generate violence on the scale of the 1999 Marzo Paraguay, which left eight student protesters dead and brought the Oviedo-backed government down. Llano said Lugo's government would hold a press conference to outline the measures they will take to manage the march in coming days, thus hopefully deflating it.

¶17. (C) Lugo insiders report that the president is frustrated with his inability to affect change, and we note backlash against and pressure on (U.S.-funded) ministries or agencies (prosecutors, customs, counternarcotics, and other law enforcement agencies) who are supporting Lugo's anti-corruption agenda. Many effective players are being moved out or undermined as they get closer to prosecuting those with vested political and economic interests. Lugo appears to be coming to terms with the challenges he faces and the legacy left him by the Colorados. Some of his own ministers and advisors appear to be more interested in their own political futures and in getting rich quick than they are in pursuing national interests. Paraguay's corrupt institutions have deep roots, and will not be changed overnight.

¶18. (C) COMMENT: While one Lugo insider insists that the president's morale is solid, we believe he is under great pressure since the April 20 anniversary of his election. We worry that the end game of some -- getting him to resign -- may become an increasing possibility. Several political contacts have told us that Lugo has already attempted to resign but was talked down by Llano, Filizzola and others. We cannot know with any certainty what Oviedo or other actors are planning, or the extent of the vice president's involvement in such plans. We also cannot fully grasp the power struggles in Lugo's inner circle, or whether Lugo has any kind of master plan for governing. We continue to believe that Lugo is pragmatic, has an affinity for the United States, and sees us as a valuable partner.

¶19. (C) COMMENT CONTINUED: Several things are certain: 1) Lugo is isolated and vulnerable, 2) there is an evident disenchantment with Lugo's failure to deliver real change, and 3) the cast of politically agile characters who seek to remove Lugo from power changes tactics and ratchets up the pressure each time they fail to incite outright public opposition to Lugo. The unknowns in this equation appear to be Lugo's own versatility and strength (which has surprised us), his opponents' capacity to execute a democratic coup (which we hope does not surprise us), and the factor of time, as elements could continue to move against Lugo at any time during the rest of his five-year term. Lugo will meet with Brazilian President Lula May 7-8 and with Uruguayan President Vasquez May 14-15. Both meetings should shore up Lugo and his confidence. We continue to look for ways to publicly support Paraguay's democratic institutions, including its president. END COMMENT.

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